



# OLR RESEARCH REPORT

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## STATE BANK OF NORTH DAKOTA

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You asked for an update of OLR Report [2010-R-0243](#) on the Bank of North Dakota. You also asked if any other states currently have state-run banks and if there are any restrictions on forming such a bank in Connecticut.

### SUMMARY

The Bank of North Dakota (BND), located in Bismarck, North Dakota, is the only state-owned bank in the United States. It was established by legislative action in 1919. Its statutory purpose is to “encourag[e] and promot[e] agriculture, commerce, and industry” (N.D. Cent. Code, § 6-09-01). In a 2009 interview with *Mother Jones* magazine, bank president Eric Hardmeyer stated that the bank was created:

as a populist movement swept the northern plains. Basically it was a very angry movement by a large group of the agrarian sector that was upset by decisions that were being made in the eastern markets . . . deciding who got credit and how to market their goods. . . . [the movement] actually took control of the legislature and created what was called an industrial program, which created both the Bank of North Dakota as a financing arm and a state-owned mill and elevator to market and buy the grain from the farmer (Harkinson, Josh, “How the Nation’s Only State-Owned Bank Became the Envy of Wall Street,” *Mother Jones*, Mar. 27, 2009, available at <http://motherjones.com/mojo/2009/03/>

[how-nation%E2%80%99s-only-state-owned-bank-became-envy-wall-street](#)).

According to the bank's website, "[i]t was never intended for BND to compete with or replace existing banks. Instead, Bank of North Dakota was created to partner with other financial institutions and assist them in meeting the needs of the citizens of North Dakota" ([http://www.banknd.nd.gov/about\\_BND/history\\_of\\_BND.html](http://www.banknd.nd.gov/about_BND/history_of_BND.html)).

There are no clear statutory restrictions on forming a state-run bank in Connecticut.

According to a representative of the Banking Department, the statutes setting out the procedure for forming banks in Connecticut allow "any person," including government entities, to form a bank (CGS § [36a-70](#)). The statutes do not specifically address forming a state-run bank, with one exception discussed below. The representative believes legislation is likely needed to create a state-run bank.

## **COMPONENTS OF THE BANK**

The State Industrial Commission operates, manages, and controls the Bank of North Dakota. The commission is composed of the Governor (who acts as chairman), the attorney general, and the agricultural commissioner.

The seven-member Bank of North Dakota Advisory Board of Directors also oversees the bank's operations. The governor appoints the board members who are then responsible for reviewing the bank's operations and making recommendations to the Industrial Commission concerning management, services, policies, and procedures.

The bank's Executive Committee consists of seven members including the president; the CEO; and leaders in lending, banking accounting and treasury; student loans, human resources and information technology.

As of 2009, the bank had 168 employees.

## **STATUTORY AUTHORITY**

North Dakota law requires all state funds to be deposited in the bank (N.D. Cent. Code, § 6-09-07). All deposits are guaranteed by the state and are exempt from all state, county, and municipal taxes (*id.* § 6-09-10). Most of the bank's deposits are from tax collection and state fees. Approximately 1.5% of its deposits are from its limited retail banking

services, such as checking, savings, and certificates of deposit (Bank of North Dakota Frequently Asked Questions at p. 2, hereinafter BND FAQs, available at [http://www.banknd.nd.gov/about\\_BND/pdfs/faqs.pdf](http://www.banknd.nd.gov/about_BND/pdfs/faqs.pdf).)

BND has the statutory authority to engage in several banking activities. Its main focus is financing for economic development. The bank is involved in both direct lending and participation loans (lending by the bank through participation with another financial institution), with an emphasis on the latter. The bank offers commercial financing programs for farming, ranching, small business, start-up enterprises, community development, and other areas. The bank also administers a state student loan program and other educational financing programs, including a 529 college savings program (BND FAQs at p. 3-10).

## **PROFITS AND LOAN PORTFOLIO**

In 1945, the bank began depositing its profits into the state's general fund. BND has contributed over \$340 million in profit to the state since 1996. In 2009, due to the state's budget surplus of over \$1 billion, the state legislature eliminated the transfer of profits to the state for the 2009-2011 biennium, instead allowing the bank to retain its profits and increase its capital. In 2011, the bank generated annual income of \$70.3 million, up from \$61.9 million in 2010 and \$58.1 million in 2009 (BND 2011 Annual Report at p. 3, available at [http://banknd.nd.gov/financials\\_and\\_compliance/pdfs/2011\\_BND\\_Annual\\_Reportweb.pdf](http://banknd.nd.gov/financials_and_compliance/pdfs/2011_BND_Annual_Reportweb.pdf)).

In 2011, the bank had a loan portfolio of \$3 billion and its loan portfolio was composed of approximately 36% commercial and business loans, 35% student loans, 19% residential loans, and 10% agriculture loans (*id.* at pp. 5, 22).

## **RESTRICTIONS ON FORMING A STATE-RUN BANK IN CONNECTICUT**

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She stated that one provision in the current bank formation statutes specifically addresses the state treasurer forming a specific type of bank. CGS § [36a-70\(s\)](#) provides for the creation of “community development banks,” defined as Connecticut banks that are organized to serve the banking needs of a well-defined neighborhood, community, or other geographic area as determined by the banking commissioner, primarily for making small business loans (\$150,000 or less). The law provides that the state, acting through the treasurer, may be the sole organizer of a community development bank, participate with any other person or entity to organize such a bank, and own all or part of such a bank’s capital stock. If the state organizes such a bank, the application fee and franchise taxes are waived (CGS § [36a-70\(s\)\(3\)](#)).

The Banking Department representative noted that the BND is not federally insured and does not accept retail deposits. CGS § [36a-70\(t\)](#) allows for the creation of uninsured banks in Connecticut, but does not specifically address a state-run bank. She said there is currently one uninsured bank operating in the state.

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